

## **IV. GAAP FINANCIAL REPORTING**

### **A. GAAP REPORTING PACKAGES**

The State prepares annual financial statements on the basis of Generally Accepted Accounting Principles (GAAP), as well as its traditional budgetary cash basis reports.

In order to prepare the GAAP basis statements, it is necessary to obtain information from the State's agencies that is not currently collected by the Delaware Financial Management System (DFMS). Most of this additional information is needed to record the state's accrued assets and liabilities at fiscal year end. The accrued assets are funds owed the state but not yet collected. The accrued liabilities are funds the state owes but has not yet paid.

This accrual data is collected shortly after the close of each fiscal year through the use of GAAP packages. The packages are standard "form-sets" completed by every agency. The agencies then enter the data on the forms directly into the DFMS GAAP Module using the GAAP Menu (GMEN).

GAAP funds are classifications of the State's funds that follow the GAAP guidelines for fund organization. GAAP fund types are described further in the next section.

Since all data within DFMS has been coded with a GAAP fund code, the information within the system can be resorted and presented in special reports on the basis of the GAAP funds involved. The data collected in the GAAP packages is combined with these special reports obtained from DFMS, and with other financial reports from related State authorities to produce a set of financial statements that are based on GAAP.

GAAP training classes are scheduled each spring, and the GAAP packages and related instructions are distributed before the close of each fiscal year by the Department of Finance.

### **B. GAAP FUND TYPES**

#### **1. General Fund - (100 Series)**

The General Fund is to account for all revenues and all disbursements not provided for in other funds. The General Fund is used to finance the ordinary operations of governmental agencies.

In Delaware, these governmental agencies include: Legislative, Judicial, Executive, Other Elective Offices, Legal, Department of State, Department of Finance, Department of Administrative Services, Department of Health and Social Services, Department of Services to Children, Youth and their Families, Department of Correction, Department of Natural Resources and Environmental Control, Department of Public Safety, Department of Transportation, Department of Labor, Department of Agriculture, Department of Elections, Fire Prevention Commission, Delaware National Guard, Advisory Council for Exceptional Citizens, and Department of Education (including school districts).

- a. General Fund except TTF - 100
- b. Transportation Trust Fund – Operations - 101

## **2. Special Revenue Funds - (200 Series)**

The Special Revenue Funds are to account for the proceeds of specific revenue sources (other than special assessments, expendable trust, or for major capital projects) that are legally restricted to expenditure for specified purposes.

Special Revenue Funds are identified as:

- a. Federal Funds - 225

The Special Revenue Funds include Federal grant funds used for specific grant projects, except for Federal highway construction funds received by the Department of Transportation; these funds are included in the Capital Projects Funds.

- b. Federal Fund Distribution - 226

The Special Revenue Funds include a temporary account used for the allocation of specific federal funds.

- c. Local School Funds - 270

Special Revenue Funds are also used to account for those receipts from other sources whose use is restricted. Tax revenues of the local school districts are accounted for in a Special Revenue Fund.

## **3. Capital Projects Funds - (300 Series)**

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds, special assessment funds and trust funds). These facilities include those provided to political subdivisions and other public organizations. These resources are derived principally from proceeds of general obligation bond issues and Federal grant funds received from the Federal Highway Administration.

- a. Capital Projects except TTF - 300
- b. Transportation Trust Fund – Capital - 301

#### **4. Debt Service Funds - (400 - Series)**

Debt Service Funds are to account for the accumulation of resources for and the payment of general long-term debt principal and interest. This excludes such long-term obligations as capital leases and unfunded retirement costs whose current portions are paid out of the General Fund. Debt Service Funds are identified as:

a. State - 425

Debt service fund used to account for the State's portion of State general obligation and capital improvement bonded indebtedness.

b. Local - 450

Debt service fund resources include transfers from local school districts to cover an agreed-upon portion of long-term debt incurred for local school district capital projects.

#### **5. Proprietary Funds - (600 and 700 Series)**

Proprietary Funds is the umbrella term covering Enterprise Funds and Internal Service Funds. These funds are used to account for those ongoing activities of the State which are similar to those found in the private sector. The emphasis of reporting is on net income measurement and capital maintenance. The GAAPs which are applicable to these funds are those used in similar enterprises in the private sector. The measurement of focus is on the determination of net income, financial position and changes in financial position.

a. Enterprise Funds - (600 Series)

Enterprise Funds account for operations which are financed like private business enterprises. The government's intent is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges. Enterprise funds are also used where the government has decided that periodic determination of revenues earned, expenses incurred, and net income received, is appropriate for capital maintenance, public policy, management control, accountability or other purposes. To accomplish this, each enterprise activity is a separate fund, or accounting entity, whose records are maintained on a proprietary basis. The use of a proprietary basis allows the state to match the revenues and expenses of the activity so that user fees and other revenue sources can be equitably and accurately set.

Enterprise operations can be sorted into three categories.

- (1) Those which are an integral part of existing agencies, using DFMS as their accounting system, and for which the state prepares financial statements on an enterprise basis. Delaware has no enterprise operations in this category at this time.

(2) Those which are partially integrated into existing agencies use DFMS, but also maintain non-DFMS accounting systems and records which are used to create separate financial statements. Delaware operations falling into this category are:

- Delaware State Lottery - 660; and,
- Delaware Housing Authority - 650.

(3) Those which are not integrated to any extent into existing agencies and do not maintain any accounting data on DFMS. Delaware has no enterprise operations in this category at this time.

b. Internal Service Funds - (700 Series)

Internal Service Funds are to account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units on a cost-reimbursement basis. The state has no internal service funds at this time.

**6. Fiduciary Funds - (800 Series)**

Fiduciary Funds is an umbrella term for Expendable Trust Funds, Non-Expendable Trust Funds and Agency Funds. These funds are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds.

a. Expendable Trust Funds - (800 - 839)

Expendable Trust Funds are funds whose principal and income may be expended in the course of their designated operations. These funds are most often used to account for income amounts transferred to them from non-expendable trust funds. Expendable Trust Funds should be limited to use in instances where a legally-mandated or a formal, legal trustee relationship exists.

The following activities and funds have been identified as expendable trust funds for financial reporting purposes:

- Employment Security - 810
- Violent Crimes Compensation - 820
- Patients' Trust Funds - 830
- Other Expendable – 839

b. Non-Expendable Trust Funds (840 - 849)

Non-expendable trust funds account for assets held by the state in a trustee capacity where only income derived from the principal may be expended in the course of the funds' designated operations. The principal must be preserved intact.

The following are the non-expendable trust funds identified by the state for financial reporting purposes:

(1) Pension Trust Funds - 845

Pension Trust Funds are used to account for transactions available for plan benefits, assets, liabilities, and net assets of the various State public employee retirement systems.

(2) Deferred Compensation - 846

The Deferred Compensation Program is a voluntary investment plan which enables State employees to supplement their eventual retirement income. No State or Federal income taxes are owed on that portion of employees' income which is deferred (retained by the State) until employees retire or leave State service. That postponement of income tax payment is made possible because the State is deemed to own and control assets purchased with deferred income until program participants leave service and ask for the cash surrender value of assets.

(3) Highway Escrow - 847

The Highway Escrow Account is a fund to account for collection of receipts of deposits from contractors held in trust as a guarantee to insure that specific contractual specifications and conditions for construction have been met in accordance with highway guidelines and procedures.

(4) Other Non-Expendable - 849

Any other Non-Expendable Trust Fund not accounted for in any of the above accounts

c. Agency Funds - (850 - 899)

Agency Funds are purely custodial; assets equal liabilities and no fund balance exists. They, therefore, do not involve the measurement of the results of operations. Agency Funds are used to account for monies and properties collected by the State for distribution to other governmental units or designated beneficiaries. The monies arise from various taxes, deposits, payroll withholdings and other sources. The State is acting merely in the capacity of an agent. Agency Funds are identified as:

Group Life Insurance	851
Social Security	852
Health Insurance	853
Withholding Tax	854
Child Support Collections	855
Division of Revenue	856
(Contractors Tax Liability Fund)	
Other Agency	899

**7. College Funds - (900 - 924)**

The financial position and operations of State colleges and universities, including their foundations and associations, are accounted for in accordance with GAAP for colleges and universities as established by the National Association of College and University Business Officers (NACUBO). In Delaware, College Funds include:

Delaware State College            910

The University and College Funds are an aggregation of the following individual fund types:

a. Current Funds

Current Funds account for economic resources of the institution which are expendable for any purpose in performing the primary objectives of the institution and which have not been designated by the governing body for any other purpose. Resources restricted for specific current operating purposes by a donor or other external agency are accounted for as restricted funds.

b. Loan Funds

Loan Funds account for resources available for loans to students, staff or faculty.

c. Endowment and Similar Funds

Endowment and Similar Funds are similar to trust funds in that they must be administered in accordance with the terms of the applicable agreement.

d. Plant Funds

Plant Funds consist of resources available to acquire or repair institutional properties, to serve debt incurred to acquire such properties and to the cost of fixed assets and the sources from which the cost is funded, including associated liabilities.

e. Agency Funds

Agency Funds consist of funds held by the institution, acting in the capacity of an agent, for distribution to designated beneficiaries.

f. Foundations

Foundations have been established to promote and serve the interest and welfare of their respective universities.

### **C. ACCOUNT GROUPS**

Account Groups are used to establish accounting control and accountability for the government's general fixed assets and the unmatured principal of its general, long-term debt. These account groups are not funds, but are accounting records and records of certain associated information. Adequate accounting records for general fixed assets are necessary to help assure that governmental property, plant and equipment are not stolen, misused, or subjected to undue wear and tear. Also, adequate accounting records help fix the stewardship responsibility for particular assets on individual government officials. Adequate accounting records for general, long-term debt are necessary to help manage the debt and its repayment.

Neither general fixed assets nor general, long-term debt are accounted for in governmental funds because they do not reflect available financial resources and related liabilities.

#### **1. General Fixed Assets Account Group - 925**

General Fixed Assets included in the Account Group reflect general fixed assets acquired or constructed for use by the State in the conduct of its activities; except for those fixed assets accounted for in proprietary, fiduciary and college fund types.

General Fixed Assets do not represent financial resources available for expenditure. Rather, they are items for which financial resources have been used and for which accountability should be maintained. Their inclusion in the financial statements of a governmental fund would increase the fund balance and could mislead users of the fund balance sheet.

General fixed assets acquired or constructed for use by the state in the conduct of its activities, other than those accounted for in proprietary, fiduciary and college fund types are accounted for in the general fixed assets account group.

a. Fixed Asset Policy

(1) Definition of a Fixed Asset

An item used for inventory control and financial reporting purposes.

(a) Purchased Assets

1) Inventory Control and Financial Reporting Purposes

An item with a useful life of more than one (1) year and a purchase or acquisition cost of more than \$15,000 per item is defined as a fixed asset for inventory control and reporting purposes. The exception is a fixed asset of \$5,000 or more purchased with federal money, i.e., a grant.

Items fitting this description must be included in the agency annual property inventory report (GAAP package) to the Department of Finance.

Agencies may maintain property listings of "Public Appeal" and other non-fixed asset items for the purpose of internal control, but such items are not to be identified as fixed assets and are not to be reported to the Department of Finance. "Public Appeal" items are those items that are easily misplaced or stolen; e.g., hand-held calculators, two-way radios, small tools, etc.

A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

2) Capital Outlay For Budgeting Purposes and Document Coding

The criteria below will also be a basis for determining funding needs for the supplies and materials and capital outlay categories of expenditure.

Any item with an estimated useful life of one year or less will be classified under/charged to supplies and materials object codes regardless of its cost.

Any item costing \$1,000 or less will be classified under/charged to supplies and materials object codes regardless of its estimated useful life.

All items with an estimated useful life of more than one year and a cost per item of more than \$1,000 will be charged to capital outlay object codes.

(b) Leased Assets

Lease purchases are to be coded to Capital Outlay while straight leases are coded to Contractual Services.

Fixed assets leased by the State should be considered as fixed assets that should be reported in the DFMS fixed asset subsystem if the lease meets the following conditions:

- The fixed asset should be entered in the subsystem after the final payment of the lease term;

**01-03**



- The lease transfers ownership of the property to the state by the end of the lease term;
- The lease contains a bargain purchase option;
- The lease term is equal to seventy-five percent (75%) or more of the estimated economic life of the lease property;
- The present value at the beginning of the lease term of the minimum lease payments, excluding that portion of the payments representing executory costs, to be paid by the state, equals or exceeds ninety percent (90%) of the fair value of the property.

(c) Donated Assets

Fixed assets donated to the state that meet the value and useful life criteria of purchased fixed assets in a.1.(a). above should also be reported in the DFMS fixed asset subsystem.

b. Determination of Cost

(1) Fixed Assets

Fixed Assets should be accounted for at cost, or if the actual cost cannot be determined, at estimated cost.

(2) Purchased or Constructed Assets

Costs of a fixed asset include not only its purchase or construction cost, but also any ancillary costs such as freight and transportation charges, site preparation expenditures, professional fees, and legal claims attributable to the acquisition of the asset, such as condemnation costs or damage claims.

(3) Leased Assets

If the actual cost of a leased asset is known, then that is the cost that should be reported. If the actual cost is not known, the cost of a leased asset is the present value of the stream of minimum lease payments using the average interest rate for the state's latest borrowing.

(4) Donated Assets

The cost of a donated asset should be reported as its fair value at the time of its receipt by the state.

(5) Estimated Cost

If it is not possible to ascertain the initial cost of a fixed asset from contracts, purchase orders, payment vouchers or other transaction documents, it may be necessary to establish

the cost of such assets by estimate. Such estimates may be made on the basis of such documentary evidence as may be available, including price levels at the time of acquisition.

## **2. Proprietary Fund Fixed Assets**

a. State agencies and activities that are accounted for under GAAP in proprietary funds should follow the same definition of fixed assets as is defined in C.1.a. above.

b. Depreciation

### **(1) Definition**

Depreciation is the recognition of the wearing out or obsolescence of assets. With the exception of land, all assets depreciate.

### **(2) Proprietary Agencies**

State agencies accounted for on a proprietary basis should compute and record the annual depreciation and the accumulated depreciation of the fixed assets under their control.

### **(3) Method**

The State uses the straight line method of computing the annual depreciation of an asset. The straight line method uses the following formula:

$$\text{Annual Depreciation} = \frac{\text{Cost of Asset} - \text{Estimated Salvage Value}}{\text{Estimated Useful Life of Asset}}$$

Accumulated Depreciation is the total cumulative amount of depreciation recognized on an asset during its life to date.

## **3. For more detailed information on fixed assets, please consult the DFMS Fixed Assets Procedures Manual or contact the Department of Finance, Division of Accounting.**

## **D. GENERAL LONG-TERM DEBT ACCOUNT GROUP**

Unmatured general obligation bonds, unmatrued revenue bonds guaranteed by the state, long term property and equipment leases, accrued sick leave, accrued vacation, unfunded retirement costs and other long-term obligations not recorded in proprietary, fiduciary and college fund types are recorded in the general long-term debt account group.